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TAXATION IN CHICAGO AND PHILADELPHIA.

THE tax system of Pennsylvania and Philadelphia is materially different from that of Illinois and Chicago.

1. The state of Illinois lays taxes on all property, real and personal, visible and invisible, unless specifically exempted; Pennsylvania exempts all property not specifically designated.

2. Illinois taxes all property at the same rates for the same taxing districts. Pennsylvania lays much lighter taxes on personal and corporate property than on real estate.

3. In Illinois, town, county, city, and state governments derive revenues from their respective rates imposed on the same assessments of local property. In Pennsylvania the sources of revenue are separated, the state government being supported by taxes on personal and corporate property and the local governments by taxes on real estate.

4. In Chicago eight independent assessors are elected by the original "towns" over which the city has spread itself; in Philadelphia property is assessed by a centralized board of three assessors appointed by a judge of the Common Pleas Court, with power in turn to appoint deputies.

The contrast is marked. What are the financial results?

PHILADELPHIA ASSESSMENT, 1895.

Class	Value	Rate
Full	\$719,401,074	\$1.85
Suburban.....	43,064,800	1.23 1/2
Farm.....	20,211,820	.92 1/2
Total.	\$782,674,694	

I shall compare for the most part Cook county instead of Chicago with Philadelphia. Little discrepancy will result. The

county and city of Philadelphia are coterminous, and consequently include farm and suburban property which in Cook county would be found outside the city limits. See preceding page for classified taxes of property of Philadelphia for 1895.

Suburban and farm property, taxed, like county property, at three-fourths and one-half the city rate, is 8 per cent. of all property. The property in Cook county outside Chicago is 10.5 per cent. of the total.

COOK COUNTY ASSESSMENT, 1894.

	Value	Per Cent. of Total
Chicago.....	\$247,425,442	89.5
Outside Chicago.	28,532,790	10.5

Only 7 per cent. of the population of Cook county is found outside the city limits.

POPULATION OF COOK COUNTY, 1890.

Chicago.....	1,099,850	92.4 per cent.
Outside Chicago.....	92,072	7.6 per cent.
Total.....	1,191,922	100

The census of 1890 shows that the tangible wealth of Illinois and Chicago is greater per capita than that of Pennsylvania and Philadelphia. If intangible property were included, Philadelphia's wealth would probably equal Chicago's.

WEALTH PER CAPITA, 1890.

Pennsylvania.....	\$1,177	Philadelphia.....	\$1,049
Illinois	1,324	Cook county.....	1,312

In 1890 Chicago contained 31 per cent. of the population of the state of Illinois and 30 per cent. of the true value of all property. She paid in 1894 31 per cent. of the state taxes. Philadelphia, with only 20 per cent. of the population of Pennsylvania

and 17 per cent. of the property, paid in 1894 over three times as much state taxes as Chicago, and one-third of all that were paid by the state.

POPULATION, 1890.

Pennsylvania.....	5,258,014	Philadelphia.....	1,046,964	19.9 per cent.
Illinois.....	3,826,351	Cook county.....	1,191,922	31.3 " "

TRUE VALUE OF REAL AND PERSONAL PROPERTY, 1890.

Pennsylvania.....	\$6,190,746,550	Philadelphia.....	\$1,099,182,534 ¹	17.4 per cent.
Illinois.....	5,066,751,719	Cook county.....	1,563,688,138 ¹	30.8 " "

STATE TAXES, 1894.²

Pennsylvania.....	\$11,343,031	Paid by Philadelphia...	\$3,722,341	32.8 per cent.
Illinois.....	3,541,925	Paid by Cook county...	1,130,872	31.1 " "

REAL ESTATE.

According to the Eleventh Census, the true value of real estate in Pennsylvania was \$3,781,177,285. It was assessed at \$2,042,-016,599, or 54 per cent. of its true value. Real estate in Illinois at its true value was worth \$3,294,042,440—only 13 per cent. less than that of Pennsylvania,—yet it was assessed at \$587,-442,289—71 per cent. less than the assessment in Pennsylvania and only 14.7 per cent. of its actual value.

In the city of Philadelphia the true value of taxable real estate and improvements in 1890 was \$1,003,151,907. This was assessed at \$688,713,518 which was 68.6 per cent. of its true value. The report of the Pennsylvania Tax Commission of 1893, as a result of wide investigations, places the assessment at 64.9 per cent. of the actual value.

The weight of evidence shows that the assessment in Cook county is but 10 per cent. of the true value. This is the estimate given by the secretary of the Citizens' Association in his report for

¹ The figures for Philadelphia and Cook county are furnished in advance of publication by Mr. J. K. Upton, late special agent, Eleventh Census.

² For details see pp. 448, 449.

1894 and by the city controller for the same year. While, therefore, in Philadelphia the assessed value of realty in proportion to true value is 20 per cent. higher than the average for the state (65 per cent. to 54 per cent.), in Chicago the assessed value is 32 per cent. lower than the average for the state (10 per cent. to 14.7 per cent.).

The fact that assessors are elected by towns in Illinois induces competition between assessors to undervalue the property of their constituents. State taxes in 1893 and 1894 were 31 cents on \$100, yielding in 1893 for state purposes \$2,673,-669.50. Property in Cook county being assessed at one-tenth of the true value, this would be a rate of 3.1 cents on \$100 actual value of property. So far the burden is insignificant. But county taxes yield twice as much, namely, \$5,540,681. The total average rate imposed by state and county is 9.8 cents on \$100 actual value of property. It would seem that for the state at large there would be but little motive to undervaluation.

The key to the problem is found in Chicago. Beginning with the state rate of 31 cents yielding, in 1893, \$847,909.43 in Cook county, we find next a county rate of 77.8 cents yielding \$2,122,543.71. The total state and county rates are therefore only 10.88 cents on \$100 actual value—but slightly higher than the average for the state. It is not these low state and county burdens but the relatively high city burdens that stimulate undervaluation. The city rate in 1894 was \$4.807, to which should be added 50 cents for the sanitary district, making an aggregate rate for state, county, city, and sanitary district of \$6.395 on \$100. On the true value of property this would be over six mills on the dollar against less than one mill (.98) for the state at large. That is to say, the incentive to undervalue in the assessing districts of Chicago is seven times as great as the incentive in the rural towns of the state and in all cities which do not spread over more than a single assessing district.

This is not all. The above comparison is made on the basis of the estimated rates on the true values of property. The actual rates on assessed values are, as already stated, ten times

higher. Undervaluation is a cumulating disease. The greater the undervaluation with the correspondingly higher tax rate the greater will be the temptation to undervalue. The total tax rate in Philadelphia is \$1.85. In New York it is \$1.82.¹ The citizen who in either of these cities returns his property at \$100 less than the average valuation saves less than \$2 by his perversion. But in Chicago, with a like undervaluation, he saves four times as much. He saves the state, county, and city tax of \$6.39½ and a "town" tax varying from 22 cents in Jefferson town to \$1.593 in the town of North Chicago. The returns are large. Every \$100 thus "invested" remunerates the proprietor all the way from \$6.61½ in Jefferson to \$7.99 in North Chicago.² And where individuals save these amounts by depressing their assessments \$100, the town itself, through its attorney the assessor, saves \$6.39½ from its share of city, county, and state support.

As long as the same sources of private property are used for town, county, and state revenues while the original assessment lies wholly with town-elected officials, the larger areas must provide boards or commissions with power to revise and correct the local valuations. The county commissioners in Illinois are *ex officio* a board of equalization for the towns, while a state board of equalization has the same power over counties. The state board may add to or deduct from the assessed values of counties "such rate per centum as will raise the same to [their]

¹ In 1893.

² TAX RATES IN CHICAGO—1894—ON \$100.

Towns.	State	County	City and Schools	Sanitary	Towns and Parks	Aggregate
South Chicago.....	\$.31	\$.778	\$4.807	\$.50	\$.396	\$6.791
West Chicago.....	.31	.778	4.807	.50	.853	7.248
North Chicago.....	.31	.778	4.807	.50	1.593	7.988
Lake View.....	.31	.778	4.807	.50	.997	7.392
Hyde Park.....	.31	.778	4.807	..	.466	6.861
Lake.....	.31	.778	4.807	.50	.556	6.951
Jefferson.....	.31	.778	4.807	.50	.220	6.615
Calumet.....	.31	.778	4.807	..	.340	6.235

Arranged from data published in the *Annual Report of the Citizens' Association of Chicago*, October 1894.

proper proportionate value," providing, however, that the aggregate valuation of the entire state, as returned by the county boards, be not decreased whatever nor increased more than 1 per cent.

There are state boards of equalization in 25 American states. Of these the Illinois board is probably the most inefficient, whether it be from its awkward constitution—22 members elected by congressional districts—or from the impossible task laid upon it. In 1873, the first year of the present board's existence, the equalized value of all property in the state was \$1,355,401,317, which, on the basis of the census returns for 1870, was about 64 per cent. of the true value. In 1890 the equalized value had fallen to \$808,892,782, which was only 16 per cent. of the true values of that year.¹

The state board, of course, can have but little knowledge of assessments throughout the state. Besides equalization proper, it has original jurisdiction in the assessment of corporations. Its work is done by committees. Indeed, its election by districts shows that not judicial fairness but sectional advantage is its constructive principle. Cook county furnishes four members, the remainder of the state sixteen. The first act of the new

¹ REAL AND PERSONAL PROPERTY IN ILLINOIS AND COOK COUNTY.

ILLINOIS.

	Local Assessment	Equalized by State Board	Assessed by State Board (Corporation)	Total Equalized	True Value
1870.....				\$ 482,899,575	\$2,121,680,579
1873.....	\$1,210,108,863			1,355,401,317	
1880.....	739,462,515	\$739,835,119	\$46,781,275	786,616,394	3,092,000,000
1890.....	727,549,707	729,246,477	79,646,205	808,892,782	5,066,751,719
1894.....	737,989,016	740,380,027	84,271,601	824,651,628	

COOK COUNTY.

	Local Assessment	Equalized by State Board	Assessed by State Board (Corporation)	Total Equalized	True Value
1870.....				\$ 85,684,584	\$ 575,000,000
1873.....	\$144,145,665			306,208,660	
1880.....	117,918,979	\$142,908,972	\$ 6,073,423	148,982,393	
1890.....	188,172,558	223,513,070	16,794,980	240,308,050	1,456,733,069
1894.....	207,928,853	255,349,882	20,608,350	275,958,232	

board in 1873 was to raise the local assessments of Cook county from \$144,145,665 to \$306,208,660, an increase of 101 per cent. Without this increase Cook county would have paid 11 per cent. of the state taxes; the board compelled it to pay 22.6 per cent.¹

RATES PER CENT. OF ADDITIONS TO THE ASSESSED VALUE OF PROPERTY IN COOK COUNTY, AS DETERMINED BY THE STATE BOARD OF EQUALIZATION (REPORT OF 1894).

Year	Personal	Lands	Lots
1873	68	122	107
1874	76	101	100
1875	52	62	52
1876	55	67	52
1877	57	63	35
1878	5	64	23
1879	20	19	19
1880	22	21	21
1881	20	77	20
1882	17	18	18
1883	19	19	17
1884	21	19	17
1885	20	16	16
1886	27	26	26
1887	29	24	22
1888	23	20	20
1889	35	20	21
1890	23	18	18
1891	36	36	35
1892	25	24	23
1893	23	20	18
1894	43	39	18

Since 1873 the state board has regularly raised the valuation of Cook county relatively to other counties, though not to the extremity of 1873. There is an apparent reason for this. Local assessors and county boards throughout the state have approximated more or less their valuations to the figures established by the board. The valuation by local assessors outside Cook county has decreased from \$1,065,963,198 in 1873 to \$530,060,163 in 1894, almost one-half, while the local valuations of Cook county for the same years have increased from \$144,145,665 to \$207,928,853, *i. e.*, about 40 per cent. The following table shows the

¹ See note on p. 439.

rates per cent. of additions to the assessed values of property in Cook county, and should be interpreted in the light of the fact that the total valuation of the state cannot by law be increased more than 1 per cent. The arbitrary action of the board is exhibited in the wide range of additions, varying in different years from a minimum of 5 per cent. in the case of personal property in 1878 to a maximum for lands of 122 per cent. in 1873. This crude "equalizing" does not call out remonstrance and agitation because the state taxes are very low. If the state government collected \$11,000,000 each year, as does Pennsylvania, the system would be abandoned.

I do not mean to say that in Pennsylvania there is no undervaluation. The State Secretary of Internal Affairs in his report for 1893 gives the results of investigations in 21 counties, showing the recorded sales and corresponding assessments of real estate. In Somerset county, for example, lots are valued at from 10.6 per cent. to 200 per cent. of their selling value, while farms are assessed at from 6 per cent. to 151 per cent.

These discrepancies have no effect on the share of the township or county in state taxes, seeing that real estate is taxed only for local purposes, and there is of course no state board of equalization. For the same reason Philadelphia is not chargeable with initiating the competitive undervaluation. But it is not so with the counties. They are divided into minute assessment districts. Washington county has 54. Assessors are elected in each by popular vote. The evasion of county taxes is their sufficient motive to undervaluation.

PERSONAL PROPERTY.

The difficulty in reaching personal property by the taxing power is well known. European nations, except Switzerland, have abandoned the property taxes on personalty. The Swiss cantons are able to preserve this form of taxation mainly because "the rates are so moderate that the effect on capital is hardly perceptible."¹ In the canton of Berne the general property tax

¹ BASTABLE, *Public Finance*, p. 422-3.

is one-fifth of 1 per cent., to which should be added in the city of Berne a communal tax of equal amount. At the same time the income tax is not paid on incomes from "interests, stocks, bonds, shows, deposits," when these are subject to the property tax.¹ In Basle the cantonal and communal taxes on property are in the aggregate only one-tenth of 1 per cent.² The highest rates are found in Zurich, namely, an aggregate of 1 per cent. for canton and commune.³ But this is a marked exception to the usual practice. Compared with the American rates of $1\frac{1}{2}$ to $2\frac{1}{2}$ per cent., the Swiss tax is very moderate, and contrasted with the Chicago rates they are insignificant. The lowest rate, that of Basle, is one-eightieth of the North Chicago rate, while the rate in Berne is one-twentieth. The same may be said of the taxes on personal and corporate property in Pennsylvania. The usual rate on corporate stock and bonds is five mills on the dollar, on personal property four mills. The latter is four times as high as the rate in Basle, exactly the same as the rate in Berne, but it is less than one-fourth of the rate on real estate in Philadelphia (1.85) and only one-twentieth of the rate on real and personal estate in Chicago. We should expect the Pennsylvania assessors to reach a larger proportion of personal property than do the Illinois assessors. Such is the case.

In Philadelphia the moneys, credits, stocks, and bonds returned for taxation (not including corporations) in 1893 was \$299,027,153.65. In Cook county the moneys, credits, stocks and bonds in 1894 were only \$6,989,959. Granting that the Chicago assessors would designedly rate this property, so far as discovered, at one-tenth of its true value, we should have only \$70,000,000 in moneys and credits reached for taxation against nearly four and one-half times as much in Philadelphia. Chicago, of course, is a younger city with relatively less accumulated capital, and, naturally, moneys and credits would be less. They may also be taken into account in assessing the capital of merchants and others, though the law requires their enumeration.

¹ See *Special Consular Reports*, 99-100, p. 621.

² *Ibid.*, p. 628.

³ *Ibid.*, p. 647.

While Chicago's real and personal property is 45 per cent. greater in amount,¹ we should not infer that her moneys and credits are greater. On the other hand, Pennsylvania exempts the stocks and bonds of all corporations in the hands of individuals where they have already been taxed to the corporation. Illinois exempts all save the shares of state and national banks, and exempts no corporate bonds whatever. These items, not taxable as personalty in Pennsylvania, should swell the returns in Illinois. With 45 per cent. more tangible property than Philadelphia, Chicago should return fully an equal amount of moneys and credits, namely, \$300,000,000. Yet, if we may not compare the two cities directly, we may compare each with other counties of their respective states. The total moneys and credits in Illinois are \$34,321,152, of which Cook county, with \$6,982,959, furnishes 20 per cent. The total moneys and credits in Pennsylvania are \$607,664,408, of which Philadelphia's share is nearly 50 per cent. And, contrasting only one of the various counties of Illinois, the banks of Winnebago county, with a population of 40,000, returned for taxation moneys and credits to the amount of \$391,291, whereas the banks of Cook county returned only \$53,925.

Compared with other states the success of Pennsylvania in reaching moneys and credits is notable. In 1891, at the former rate of three mills, the assessment was \$575,295,999. The ten states, Massachusetts, Ohio, Kentucky, California, Iowa, West Virginia, Illinois, Alabama, Minnesota, and Colorado returned the same year \$317,449,151, only 55 per cent. of the amount in Pennsylvania. Yet these states, by the eleventh census, possessed three and one-half times as much real and personal property. Had their moneys and credits been returned in the same ratio the total would have been \$2,023,000,000, instead of \$317,000,000. Assuming that it should have been two and one-half times as great—\$1,438,000,000—and that the average rate of taxes in cities where this class of property is mainly found is \$2.50, these ten states, it must be admitted,

¹ See p. 436.

secured more revenue than they would have done at the Pennsylvania rate of 40 cents. Compared with Chicago, however, the revenue from moneys and credits at 20 times the rate is less than one-half the amount. At 7 per cent. the \$6,989,959 in Cook county would yield \$489,297. Estimating Chicago's moneys and credits at \$300,000,000, a four-mill tax would bring \$1,200,000.¹

But the more important problem is not, what rate will yield the largest revenue. Equally important is the question, at what rate will the burden be most equally distributed and the repressive effects on industry and morals be minimized.

Here we should note the distinction between uniformity and universality. Both realty and personalty may be undervalued—realty may be uniformly undervalued—personalty alone may

¹ MONEYS AND CREDITS RETURNED FOR TAXATION.

States	Moneys and Credits ²	True Value of Real and Personal Property—Census 1890	Average Tax on \$100
Massachusetts 1891	\$ 79,368,819	\$ 2,803,645,000	\$1.46
Ohio 1891	113,943,512	3,951,382,000	1.91
Kentucky 1891	38,544,858	1,172,232,000	1.35
California 1891	25,819,360	2,533,733,000	1.70
Iowa 1891	21,421,627	2,287,348,000	2.92
West Virginia 1890	12,512,391	438,954,000	1.74
Illinois 1891	13,011,489	5,066,751,000	4.09
Alabama 1891	7,722,928	622,773,000	1.15
Minnesota 1891	2,573,847	1,691,851,000	2.16
Colorado 1891	2,530,320	1,145,712,000	2.91
Ten states.....	\$317,449,151	\$21,614,381,000	\$2.14 average
Pennsylvania 1891	575,295,999	6,190,746,000	.30 on moneys
Pennsylvania 1894	613,927,285 ³	.....	.40 on moneys

Actual revenue of ten states from moneys and credits, estimated at

\$2.50 rate..... \$ 7,936,000

Estimated value of moneys and credits in ten states on the basis of two

and one-half times the amount in Pennsylvania 1,438,240,000

Revenue on latter at 40 cents..... 5,752,960

² Moneys and credits are given in a report of the Tax Conference of Pennsylvania Interests, 1892, collated from reports of state auditors.

³ Includes about \$4,000,000 in horses, carriages, etc.

escape. The high tax rates of Chicago increase the pressure to escape, and so increase relatively the burden on the honest, the poor, and the wards whose property is returned.

Furthermore, from the standpoint of the farmers who control tax legislation, of the \$490,000 taxes on moneys and credits in Cook county only \$21,000 goes to the state at large. If the Pennsylvania system were adopted by Illinois the entire tax estimated at \$1,200,000 would relieve other property throughout the state from state taxes. The Illinois system by subjecting moneyed property to local taxes burdens it in Cook county 20 times as heavily as experience justifies, secures for the state less than 2 per cent. of the possible revenue, forces three-fourths of the property to escape, while the \$470,000 obtained by the city, county, and towns is a most expensive and insignificant item compared with the \$19,000,000 taxation for local purposes.¹

The industrial bearing of the two systems is important. Moneys and credits are not localized but highly mobile. They represent productive investments not merely in the city where their holders reside, but throughout the state and other states. They are therefore peculiarly apt for state taxation. At the same time they tend to flow in the direction of least resistance, *i. e.*, where they are taxed the least. And if the state law subjects them to the high local taxes of Chicago, the only way in which the city can attract capital is by electing assessors who will grossly violate the law. In Philadelphia both the industrial and the immoral pressure is avoided by the state tax at the low rate while the fiscal returns are increased.

¹ TAXES IN COOK COUNTY — STATE AUDITOR'S REPORT, 1894, P. 181.

State Tax.....	\$ 847,909.43
County Tax.....	2,122,543.71
City Tax.....	5,876,261.86
Schools.....	6,128,682.01
All Other.....	3,841,314.94
Registered Bond Tax.....	6,081.87
Total Taxes.....	\$18,822,793.82

The only other classes of personalty taxed in Philadelphia are carriages and wagons used for hire, and horses and mules over four years of age. Carriages and wagons are classed with moneys and credits, and pay a four-mill tax for state purposes. The assessed value of such property in Philadelphia in 1893 was \$181,525, being 31 per cent. of the total for the state (\$589,204). In Illinois all carriages and wagons, whether for hire or direct use, are taxed. Cook county furnishes 26,960, valued at \$684,084, being 6 per cent. of the number in the state (434,058), and 18 per cent. of the total values for the state (\$3,712,211).

Horses and mules in Pennsylvania are assessed for local and not for state purposes, and the rates are the same as the rates on real estate. For this class of personalty, therefore, the Philadelphia rate of \$1.85 is four and one-half times the rate on other personalty and only one-fourth of the combined rates in Chicago.

PERSONAL PROPERTY IN COOK COUNTY, EXEMPT IN PHILADELPHIA,
1894.

Enumerated	Number	Assessed Value	Average
Fire and burglar-proof safes.....	397	\$ 11,752	\$ 29.87
Billiard and pool tables.....	154	3,385	22.00
Watches and clocks.....	7,597	28,721	3.78
Sewing and knitting machines.....	5,232	23,400	4.47
Pianos.....	11,930	338,694	28.39
Melodeons and organs.....	647	6,455	9.97
Franchises.....	14	55,023	3,930.21
Annuities and royalties.....	1	1,000	1,000.00
Patent rights.....	1	25	25.00
Steamboats, vessels, etc.....	234	48,645	207.80
Unenumerated		Assessed Value	
Merchandise.....		\$12,225,419	
Material and manufactured articles.....		1,545,936	
Manufacturers' tools, implements, machinery.....		1,514,423	
Agricultural tools, machinery.....		84,392	
Gold and silver plate and plated ware.....		13,605	
Diamonds and jewelry.....		17,750	
Pawnbrokers' property.....		2,000	
Bridge property.....		445	
Saloons and eating houses.....		13,483	
Household and office furniture.....		3,053,460	
Investments in real estate.....		6,275	
Grain of all kinds.....		2,320	

Horses and mules in Philadelphia over four years of age (others being exempt) are valued at \$3,404,935 and pay a tax of \$62,991.29 (at \$1.85), while horses and mules of all ages in Cook county are valued at \$874,815 and pay a combined tax of \$61,237 (at \$7.00). Philadelphia has 10 per cent. of the values of horses and mules in the entire state (\$32,585,620), while Cook county has 4 per cent. (of \$19,480,994).

Other kinds of property not taxed in Philadelphia are so notoriously undervalued or concealed in Chicago as to suggest the superiority of the Pennsylvania system of total exemption.

CORPORATIONS.

The differences in the methods of taxing corporations in Illinois and Pennsylvania may be classed as follows:

1. The Tax Basis.—In Illinois the old personal property tax on stock in the hands of individuals has been abandoned except for state and national banks. Bonds are supposed to be taxed as personal property. There remains but one basis for taxing corporations, namely, the true value of corporate stock. In Pennsylvania the personalty tax on individuals has been altogether abandoned and there are three bases of taxation: (1) Capital stock at its true value; (2) Funded debt; (3) Gross earnings. The second and third are external and certain, they leave nothing to administrative discretion, but they are glaringly unequal as between corporations.

2. Organs of Assessment.—Neither state employs local assessors. In Illinois corporations are assessed by a special state board, in Pennsylvania by an *ex officio* board, the state auditor and treasurer.

3. Destination of Revenues.—In Illinois the state board apportions the capital value of the railway corporations among the counties, and the county boards among the minor divisions, in proportion to the length of main track in such divisions. All depots, sidetracks, machine shops and other real estate are taxed where located. The property then pays the ordinary local rates

for local purposes as well as the state rate. In Pennsylvania railway corporations pay only the state taxes and no local taxes whatever on property which is necessary to the exercise of their franchises. This includes roadbed, depots, freight houses, water tanks, round houses, sidings, etc. Other lands and structures, as office buildings separate from depots, land held for future use, machine and repair shops, are taxed locally. All other corporations in both states pay local taxes on real estate and other taxes upon the same basis as railways. Manufacturing corporations in Pennsylvania, however, are exempt from state taxes.

4. Tax Rates.—The average rate on all property in Illinois in 1893 is stated by the auditor to have been \$3.74. For Cook county it was \$6.92. We have seen that for Chicago it ranges from \$6.23½ to \$7.98 $\frac{8}{10}$. The Pennsylvania rates are given herewith. For railways and similar corporations they were materially increased by the act of June 8, 1891, which went into effect in 1893.

PENNSYLVANIA TAX RATES ON CORPORATIONS, PER \$100.

	1892	1894
RAILWAYS, ETC.		
Capital stock.....	\$.30	\$.50
Funded debt.....	.30	.40
Gross earnings.....	.80	.80
Realty not used for transportation, local rates.		
MANUFACTURING CORPORATIONS.		
Capital stock and gross earnings, exempt.		
Funded debt.....	.30	.40
Realty, local rates.		
BANKS, INCORPORATED.		
Capital stock, \$0.80 on par value, or \$0.40 on actual value, at the option of the payer.		
Realty, local rates.		
BANKS, UNINCORPORATED AND PRIVATE.		
Net earnings or income.....	.30	
Realty, local rates.		

APPORTIONMENT OF STATE TAXES.

The following tables exhibit the comparative share which each city bears in the support of its state government :

STATE REVENUES OF ILLINOIS, 1894.¹

Resources	Paid by the State	Paid by Cook County	Per cent. paid by Cook Co.
1. Railways, 31c. on \$79,231,164 and \$17,069,574.....	\$ 245,616	\$ 52,707	21.5
2. Other corporations on \$4,994,777 and \$3,538,776.....	15,483	10,970	70.9
3. General property other than corporations, 31c.....	3,280,826	1,067,195	32.3
Total taxes apportioned.....	\$3,541,925	\$1,130,872	31.1
4. Miscel'ous, fees, etc., not apportionable..	989,600		
Total state revenues.....	\$4,531,525		

STATE REVENUES OF PENNSYLVANIA, 1894.

Sources	Paid by the State	Paid by Philadelphia	Per cent. paid by Philadel'a
1. Railways (apportionment estimated).....	\$ 3,132,860	\$ 313,286	10.0
2. Other corporations (apportionm't estim'd)...	2,467,506	816,876	25.0
3. Taxes (appor'nable)	Paid by the State	Paid by Philadelphia	
Personal property..	\$2,386,751	\$1,156,597	48.4
Banks, incorpor'd..	511,069	127,980	25.0
Private banks, net earnings.....	78,086	57,543	73.8
Licenses	1,366,137	676,292	49.8
Writs, wills, deeds, etc	162,518	76,611	47.2
Collat'l inheritances	869,179	386,599	42.2
Municipal loans....	192,639	95,492	49.6
Notaries, gross rec'ts	4,478	1,150	8.2
“ commiss'ns	14,175	3,650	25.7
Fees of pub. officers	157,631	10,515	6.0
Total taxes apportioned.....	\$11,343,031	\$3,722,341	32.8
4. Miscellaneous fees, etc., not apportionable...	1,530,855		
Total state revenues.....	\$12,873,786		

Compare the first two systems respecting railway corporations, which pay 94 per cent. of all corporate taxes in Illinois, and

¹ The auditor's accounts run for two-year periods, consequently item 4 is estimated. Items 1 and 2 are calculated from the equalized valuations and then deducted from the total general property tax to find item 3.

44 per cent. of such taxes in Pennsylvania.¹ In Illinois in 1894 railway property (\$79,231,164) at the average rate of \$3.74 for the state paid in aggregate taxes to all divisions of government \$2,964,953. In Cook county the equalized value of the corresponding property was \$17,069,574, being 21.5 per cent. of the total for the state. The local rate of \$7.00, however, would bring to the city and county \$1,194,870, or 41 per cent. of all the railway taxes paid in the state, leaving only \$1,770,083 for the remaining local divisions and the state government.

The position of Philadelphia is in striking contrast. In 1894 Pennsylvania railways paid for state purposes, apart from real estate locally taxed, \$3,132,860.² The state of Pennsylvania receives from its railways nearly twice the revenue derived by the state of Illinois and all the counties outside of Cook, and Philadelphia, instead of receiving 41 per cent. of the railway taxes of the state, receives no share. If Philadelphia contained the same proportion of state railway property as Cook county, we might estimate her share of state railway taxes as 21.5 per cent. of the total. But the estimate would be too high. Remembering that the local rate (\$1.85) is 30 per cent. higher than the average for the state (\$1.414)³ we shall be safe in estimating the railway taxes surrendered by the city for the use of the state as 10 per cent. of the total railway taxation. Respecting other corporations, taxed like railways, which pay in Pennsylvania a tax of \$2,467,506, there are likewise no data available for determining the share paid by the city. I have estimated it at 25 per cent., the same as bank taxes. Nine Phila-

¹ COMPARATIVE TAXATION OF RAILROADS AND OTHER CORPORATIONS, 1894.

	Railways	Other Corporations
Illinois (value)	\$79,276,824	\$4,994,777
“ per cent.	94	6
Pennsylvania (taxes)	3,132,860	2,467,506
“ per cent.	56	44

² Capital stock, \$1,791,942; funded debt, \$787,660; gross earnings, \$553,248.

³ Preliminary Report on Real Estate by the Pennsylvania Tax Conference, p. 16.

delphia street car companies alone pay \$273,000, or 11 per cent. of the state total. "Other corporations" in Chicago pay 71 per cent.

Beside the state taxes on corporations whose apportionment must be estimated, we find a list of taxes aggregating \$5,742,-664, whose origin can be directly located. Of these Philadelphia pays 45 per cent. The personal property tax, of which Philadelphia's share is 50 per cent., has already been described, as well as the taxes on banks and private bankers. Licenses, collateral inheritances, and municipal loans furnish the largest remaining contributions. The last named is a four-mill tax on loans to be paid by the city treasurer and deducted from interest payments.

Summing up this comparison we find that, apart from miscellaneous earnings of the state governments, Chicago pays 31 per cent. of the state revenues of Illinois and Philadelphia pays 32.8 per cent. of the threefold larger revenues of Pennsylvania.

The Pennsylvania system is criticised on two grounds, complexity and heavy burdens on real estate. Its complexity is purely administrative and technical, and does not lie in that confusion of state and local revenues which characterizes the systems of other states. Preserving the separation of sources the system could be simplified by consolidating the corporation taxes, perfecting the assessment of mercantile licenses, and introducing certain clerical and administrative improvements. This matter is aside from the purpose of the present paper, and is only mentioned because critics have assumed complexity to be inherent in the system.

Governor Pattison asserts in his message of 1893 that "real estate has undoubtedly borne the burden of the day in taxation. . . . So long as we continue raising our revenues upon the basis of values the injustice of compelling a value in land to be taxed beyond a value in personal property is heavily felt by many of our fellow-citizens." He recommends "that a revenue law be framed by which the entire cost of the state government

should be paid by the taxation upon corporations and collateral inheritances, and the receipts from taxes upon other forms of personal property be returned to the several counties to relieve the real estate therein." Governor Pattison refers especially to farm property. How does the criticism hold for Philadelphia?

Since the year 1883 the tax rate on "full" city property in Philadelphia has been fixed by the council each year at \$1.85. The average assessment of real estate is 65 per cent. of its true value. The actual tax rate is therefore $\$1.19\frac{2}{10}$ on \$100. Chicago's highest rate is \$7.98 on \$100, and the average is \$7.00. With property undervalued at 10 per cent. the highest actual rate is 79.8 cents. Apparently, therefore, the tax on realty in Philadelphia is 39.4 cents (49 per cent.) higher than the tax in North Chicago and 49.2 cents (70 per cent.) higher than the average for the city.

A closer examination will show that the higher rates in Philadelphia are caused not by the peculiar system but by (1) relatively higher expenditures for city departments, and (2) relatively lower revenues from supplementary sources.

In the accompanying tables the main expenditures and revenues of the two cities have been reduced to what would be their corresponding tax rates on the true values of real estate. Assuming that property is valued at 65 per cent. in Philadelphia the assessment for 1894 of \$769,930,542 would represent a true real estate value of \$1,184,523,911. For the city of Chicago proper (excluding the remainder of Cook county) the equalized value of real estate for 1893 was \$191,923,670, representing a true value ten times as great. With these values as a basis it will be seen that the total expenditures of both cities (after deducting transfers, duplicate entries, and rebates) are relatively such that, if they were to be paid entirely from taxes on real estate, the tax rate in Philadelphia, on true values, would be $\$2.66\frac{6}{10}$ on \$100, while in Chicago the rate would be \$1.83. That is to say, Philadelphia's aggregate expenditures would bear upon \$100 real estate 83.6 cents (46 per cent.) heavier than would the expenditures of Chicago. Examining separately the estimated rates

which the expenditures of the several departments would impose we find that six principal items—schools, public works, interest, fire, water, and gas—would impose a tax of \$1.13 $\frac{2}{10}$ in Chicago and \$2.02 $\frac{3}{10}$ in Philadelphia—a difference of 89.1 cents on \$100 real estate. Only in education does Chicago exceed, and the excess is explained by new buildings and permanent improvements.

EXPENDITURES, 1894.

	AMOUNT		RATE ON \$100 ACTUAL VAL. REALTY	
	Chicago	Philadelphia	Chicago	Phila.
1. Education	\$6,607,008.05 ¹	\$3,299,369.75	34.7	27.3
2. Public Works	4,136,003.65	7,370,561.57	21.5	62.3
3. Interest and Sinking Fund	1,478,732.58	3,398,570.63	77	28.7
4. Police	3,712,766.83	2,230,449.52	19.3	18.8
5. Fire	1,618,867.76	789,250.89	8.3	6.6
6. Lighting	869,518.53	1,055,991.67	4.5	9.0
7. Water (and Gas in Philadelphia)	3,298,687.89	5,829,367.17	17.2	49.6
Total seven items	\$21,721,585.29	\$23,973,561.20	113.2	202.3
8. Special Assessments	4,235,341.40	.....	22.1	.....
9. Share of County Expenses	5,630,000.00 ²	.....	29.3	.....
10. Judges' Salaries and Charities ..	154,834.05 ³	528,142.64 ³	.8	4.4
11. Miscellaneous	3,380,355.46	7,063,916.12	17.6	59.9
Total Expenses	\$35,122,116.20	\$31,565,619.96	183.0	266.6
Transfers, rebates, etc.	5,022,018.30 ⁴	1,352,856.25 ⁵	—	—
Apparent Total	\$40,144,134.50	\$32,918,476.21	—	—

On the other hand, compared with expenditures, Philadelphia has relatively less receipts from supplementary sources. These

¹ Includes buildings, permanent improvements, \$1,147,800.45.

² Estimated by Secretary of Citizen's Association, *Report*, 1894.

³ Not paid to city officials, but expended directly by state officials, and therefore not found in the reports of the city comptrollers.

⁴ Temporary loan, \$1,250,000.00.

Refunding loan, 293,150.00.

School Tax fund, 2,239,116.20.

Special assessments, 1,239,752.10.

Total, \$5,022,018.30.

⁵ Debt payments balanced by new loans.

sources are of two kinds: (1) controlled by the city, such as earnings, loans, licenses, and miscellaneous revenues, (2) state aid.

RECEIPTS, 1894.

	AMOUNT		RATE ON \$100 ACTUAL VAL. REALTY	
	Chicago	Philadelphia	Chicago	Phila.
1. Industries.....	\$3,555,875.45 ¹	\$5,861,572.34 ²	18.4	49.5
2. Loans (net increase).....	.....	3,747,143.16	....	32.5
3. Special Assessments.....	4,235,341.40	.....	22.1	....
4. Rents and Interest.....	372,252.26 ³	287,720.84 ⁴	2.8	2.5
5. Licenses.....	3,788,794.02	1,647,747.50	19.6	13.9
6. Miscellaneous.....	5,736,890.43	3,457,166.63	29.7	29.4
Total Earnings, etc.....	\$17,689,153.56	\$15,001,350.47	92.6	127.8
7. State—School.....	\$ 278,128.59	\$1,051,669.06	1.3	8.8
8. State—Personal Property.....	.....	906,652.79 ⁵	....	7.6
9. State—Judges and Charities....	154,834.05	528,142.64	.8	4.4
10. Tax on Railways.....	1,123,676.89 ⁵	.....	5.7	....
11. Tax on Personal Property.....	2,546,991.69 ⁵	.....	13.3	....
Total State Aid.....	\$4,103,631.22	\$2,486,464.49	21.1	20.8
Total Supplementary.....	\$21,793,784.78	\$17,587,814.96	113.7	148.6
12. Tax on Real Estate.....	\$13,329,331.42 ⁵	\$13,977,805.06 ⁶	69.3	118.0
Total Receipts.....	\$35,122,116.20	\$31,565,619.96	183.0	266.6

1. Earnings, etc.—The total amount received by the city of Philadelphia from her water and gas industries is relatively about three times as much as Chicago's earnings, *i. e.*, compared with the true values of real estate, these earnings in Chicago serve to lessen the tax on realty 18.4 cents on \$100, while the earnings

¹ Water supply.

² Water and gas supply.

³ School property.

⁴ Stocks, deposits, wharves, etc.

⁵ Items 10, 11, 12, together amount to \$17,000,000, estimated by the Citizens' Association, 1894, as the total taxation of the city, including proportionate share of county, town, and sanitary district taxes. Items 10 and 11 are estimated 7 per cent. on equalized value of railway property, \$16,052,527, and personal property \$37,814,167.

⁶ Includes delinquent tax, \$1,184,098.54.

in Philadelphia are a relief to realty of 49.5 cents; Philadelphia borrowed enough money to reduce the tax 32.5 cents, whereas Chicago's indebtedness was not increased. On the other hand, Chicago collected through special assessments for sewers, water service, sprinkling, paving, etc., which in Philadelphia would be paid mainly from taxes and earnings, enough to lower her tax on realty 22.1 cents. Rents, licenses, and miscellaneous revenues are slightly greater in Chicago. Altogether, the aid received from these sources under the control of the city was \$17,689,000 in Chicago and \$15,000,000 in Philadelphia. If these sums had been raised by taxes on realty the rates necessary therefor would have been 92.6 cents in Chicago and \$1.27.8 in Philadelphia, a difference of 35.2 cents in favor of Philadelphia. But this difference is inadequate to cover the heavier expenditures of 83.6 cents. It leaves a balance of 48.4 cents on \$100 realty against Philadelphia to be met by taxes or state aid. As a matter of fact it is met by taxes, seeing that this is almost the exact excess (49.2 cents) in the tax rate of Philadelphia over the average rate of Chicago, and considerably above the excess for North Chicago (39.4 cents).

2. State Aid.—Since 1891 the state of Pennsylvania returns to the counties three-fourths of the tax on personal property as collected respectively in the several counties. This is favorable to Philadelphia, which receives one-half the amount so returned to all the counties. Since 1893 the state has also distributed to the counties over \$5,000,000 yearly for common schools. This distribution is based on the number of taxables in the counties and is therefore unfavorable to Philadelphia. In 1894, out of \$5,172,826.05 apportioned, Philadelphia received only 16 per cent., namely, \$850,924.10.¹ Besides these two aids, which appear in the city records, there is granted to the city for judges' salaries and local charities \$528,142.64, which should properly be considered a grant to the local government. Altogether, the aid

¹This is the amount given by the state auditor, and does not agree with the \$1,051,669.06 reported by the city controller. The latter is made the basis of the present comparisons.

received from the state in these three ways affords a relief to the owners of realty of 20.8 cents on \$100.

In Illinois the state distribution for schools in 1893 was \$875,-229. Chicago received 32 per cent. of this—\$278,128.59. Cook county received for judges' salaries \$154,834.05. In this comparison with Philadelphia's taxes on realty the taxes which Chicago receives on railroad and personal property should be included as supplementary revenue, granted by the state as relief to real estate owners. This, estimated at the average tax rate of 7 per cent. on the equalized value of railway and personal property, amounts to \$1,123,000 for railways and \$2,547,000 for personalty. Together they reduce the rate on realty 19 cents, and the total reduction from state aid is 21.1 cents on \$100.

Of the two kinds of supplementary revenues, therefore, that controlled by the city and that controlled by the state, the former alone, compared with the aggregate expenditures of the cities, accounts for the difference of 49.2 cents in the tax rates. The latter is about the same for both cities. The fact that Illinois permits Chicago to tax at local rates her local railway and personal property is fully compensated in Philadelphia by the grants from the state treasury to the city government.

At the same time Philadelphia is apparently at a disadvantage compared with Chicago in the balancing of accounts between city and state, as the following summarized table will show :

BALANCE BETWEEN CITY AND STATE.

	PAID TO THE STATE.		STATE AID		NET GAIN OR LOSS
	Amount ¹	On \$100 Realty (cents)	Amount ²	On \$100 Realty (cents)	On \$100 Realty (cents)
Chicago	\$1,130,872	5.8	\$4,103,631.22	21.1	Gain 15.3
Philadelphia	3,722,341	31.4	2,486,464.49	20.8	Loss 10.6

Chicago pays to the state 5.8 cents on \$100 realty and receives 21.1 cents, leaving a net balance to the advantage of the city of

¹ See pp. 448, 449.

² See p. 454.

15.3 cents. Philadelphia, paying 31.4 cents, receives back two-thirds of this amount, leaving a balance to the disadvantage of the city of 10.6 cents on \$100 realty. Apparently, therefore, Philadelphia, being deprived by the state government of certain important sources of revenue without compensating returns, is at a disadvantage compared with Chicago of about 26 cents on \$100 of real estate.

This inference should be examined.

1. First, as to personalty. Chicago receives from her local tax on personal property an amount which lessens the tax on real estate 13.3 cents, while Philadelphia receives from the state as her share of the personalty tax the equivalent of a rate of only 7.6 cents.¹ But it must be remembered that almost the only personalty taxed in Pennsylvania is moneys and credits, and in Cook county these furnish but 24 per cent. of the total amount of personalty returned for taxation.² Moneys and credits in Chicago at local rates yield only \$489,297,³ equivalent to a tax rate on realty of only 2.5 cents instead of the actual 13.3 cents for all personal property. On the other hand, if Pennsylvania should tax *all* personal property as does Illinois the revenue from this source would probably be trebled. The following tangible personalty is exempt from taxation, the values being for the census year 1890:

Live stock and farm implements	-	-	\$ 140,699,613
Machinery and manufactures	-	-	486,944,603
Miscellaneous	-	-	777,541,606
Total	-	-	\$1,405,185,822

Recognizing three years' increase since 1890, the tangible personalty untaxed is fully twice the moneys and credits taxed.

2. Manufacturing corporations in Pennsylvania are exempt from all taxes except those on real estate. In the census year there was invested in Philadelphia in manufactures a capital of

¹ See p. 454.

² Total personalty returned (1894) by local assessors, \$28,783,994; moneys and credits, \$6,982,959.

³ See p. 443.

\$439,393,792. Deducting the amount invested in breweries (not exempted) and making other allowances, fully \$400,000,000 of corporate property of this type in Philadelphia alone is exempt. If taxed at the five-mill rate the revenue would be \$2,000,000, a sum equal to 17 cents on \$100 realty.

3. Certain forms of taxes, like collateral inheritances, would not be used for local purposes in either state, and should therefore not properly be figured as a deprivation from Philadelphia.

Making these corrections, we find that the apparent disadvantage of Philadelphia of 26 cents on \$100 realty compared with Chicago in the account with the state governments, should be offset by relative advantages exceeding 30 cents which might be gained were the state of Pennsylvania to tax all personal property and all corporations as does Illinois, permitting localities to retain the proceeds.

It is acknowledged that so favorable a showing for Philadelphia could not be made did not the state government return to the city substantial aid. Indeed, the argument for separating the sources in American systems of taxation does not involve the loss of these sources to local governments. It rather provides a richer and juster collection through more competent agencies and an apportionment to localities based on broader political and ethical principles.

The failure and injustice of the personal-property tax in most of the states is recognized. There is a tendency to substitute inheritance, income, and special taxes. Pennsylvania offers an instructive alternative. If the tax is retained, it must be a state tax. This alone can prevent the competition between districts and the undervaluation which attracts movable and intangible properties. A state tax permits a low rate which experience justifies on the grounds of productivity, uniformity, universality, and industrial stimulus. On the other hand, real estate can pay high rates. It cannot flee nor evade. It may be undervalued, but it cannot be undiscovered. Exempted from state taxation the motive to undervalue is gone, and boards of equalization are abrogated. For the same reason the Chicago "town" system

and the Pennsylvania small "district" system of assessment are condemned. The Philadelphia centralized appointive system with the area of assessment coextensive with the taxing power is approved.

Similar arguments hold for corporations. A state board is more competent to assess them than local assessors. As to the destination of revenues from corporations, weighty questions of policy and justice arise. Pennsylvania gives a bold and just answer. They should be wholly returned to the state government, leaving not even the valuable terminals and depots of railway corporations for city taxation. Franchises and rights of way are peculiarly state products. The entire line is a unit. It gets its value from the traffic between city and country. Moreover, a portion of the tax is redistributed to the city. This is our final problem.

The Pennsylvania system of state revenue is far more productive than that of Illinois. It yields three times as much.¹ So fruitful is it that, besides paying loans to the amount of \$1,771,619 in 1894, the state government returned to the local divisions \$5,769,151 for schools, and \$1,823,363, three-fourths of the personal property tax. Illinois, on the other hand, although distributing only \$1,070,000 for schools and paying no debts, suffered a deficit in two years of \$2,300,000.

The Pennsylvania system produces a surplus. State expenditures are not increasing as rapidly as those of local and city governments on the one hand and the Federal Government on the other. One reason is probably the lack of easy revenue without trespassing on local sources. A separation of sources solves this difficulty. A surplus follows, which must be distributed. This may be done in three ways:

1. The state may distribute the surplus in the same proportion in which it is collected. This is done in Pennsylvania with the personal property tax. The method is simple and crude. The cities get much the larger share of the tax, whereas the mortgages, bonds, and stocks, whose owners move to the cities, repre-

¹ See figures on pp. 448, 449.

sent productive investments not only in the cities but in the state and country at large.

2. The state may aid certain local interests which are of state and national importance. The common schools are here pre-eminent. Pennsylvania's large school fund is distributed to localities not in proportion to *taxes* but in proportion to *taxables*. The apportionment rests on the principle "to each according to his needs." The education of the children of the state becomes the care of all the state. This rests on the other basis, "from each according to his ability." Thus Philadelphia gets but 18 per cent. of the school fund instead of the 30 or 40 per cent. to which her tax payments would entitle her. The apportionment basis in Illinois, namely, the number of persons under 21 years of age, is more favorable to Chicago. Of the \$1,056,037 distributed in 1893, Cook county received \$308,157—30 per cent.—corresponding closely to the county's proportion of state taxes.

3. The state may expand its functions and relieve the local governments of certain administrative interests. These are especially supervision of the school system; increased classification of charities and penal institutions; and state highways, supplementing the local roads.

The main obstacles to the reform of Chicago's tax system are the constitutional requirement of uniform laws and the state legislature elected by rural constituencies. State tax reform and city tax reform must come together. By separation of sources and a low tax on personalty both city and country would gain—the country by larger state aid to local expenses derived mainly from the city, the city by home rule, fairer valuations, larger state aid, and greater ability to bear the lower equalized personalty and corporate taxes.

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